

**REPORT TO  
THE CONGRESS OF THE UNITED STATES**

U.S. GOVERNMENT PRINTING OFFICE

**AUDIT OF  
ALASKA RAILROAD  
DEPARTMENT OF THE INTERIOR  
FISCAL YEARS 1958 AND 1959**



**BY  
THE COMPTROLLER GENERAL OF THE UNITED STATES  
MARCH 1960**

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COMPTROLLER GENERAL OF THE UNITED STATES  
WASHINGTON 25

B-114886

MAR 11 1960

Honorable Sam Rayburn  
Speaker of the House of Representatives

Dear Mr. Speaker:

Herewith is our report on the audit of the Alaska Railroad, Department of the Interior, for the fiscal years ended June 30, 1958 and 1959.

We noted no significant weaknesses or deficiencies in those operations of the Railroad that we reviewed. However, our audit disclosed significant accounting deficiencies. These deficiencies resulted primarily from the Railroad's use of inadequate depreciation rates and delays in commencing charges to operations for depreciation on certain new fixed assets put into use and from improper accounting treatment of losses on retirement of nondepreciable property, retroactive wage adjustments, and provision for employees' annual leave. Had the above accounting matters been properly handled, the Railroad would not have reported a net income from operations for fiscal years 1959 and 1958 of \$343,800 and \$109,000, respectively, but a net deficit of \$841,800 and \$965,800, respectively. Because of these major accounting deficiencies, we are unable to state that the Railroad's financial statements present fairly the financial position of the Railroad at June 30, 1959 and 1958, and the results of its operations for fiscal years 1959 and 1958.

This report is also being sent today to the President of the Senate. Copies are being sent to the President of the United States, the Secretary of the Interior, and the General Manager of the Alaska Railroad.

Sincerely yours,

A handwritten signature in cursive script, appearing to read "W. J. Campbell".

Comptroller General  
of the United States

Enclosure

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REPORT ON AUDIT  
OF  
ALASKA RAILROAD  
DEPARTMENT OF THE INTERIOR  
FISCAL YEARS 1958 AND 1959

The General Accounting Office has made an audit of the Alaska Railroad, Department of the Interior, for the fiscal years ended June 30, 1958 and 1959, pursuant to the Budget and Accounting Act, 1921 (31 U.S.C. 53), and the Accounting and Auditing Act of 1950 (31 U.S.C. 67). The scope of the audit performed is described on page 47 of this report.

GENERAL COMMENTS

The Alaska Railroad (Railroad) is an activity under the supervision of the Office of Territories,<sup>1</sup> a division in the Department of the Interior; general offices of the Railroad are located in Anchorage, Alaska. The act of March 12, 1914 (48 U.S.C. 301-308), authorized the President of the United States to locate, construct, and operate railroads in the Territory of Alaska. Construction of a rail line from Seward to Fairbanks, Alaska, was completed in 1923. The Railroad commenced operations in 1916 and at June 30, 1959, had 482.7 miles of main lines and 54.7 miles of branch lines.

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<sup>1</sup>On December 16, 1959, the Secretary of the Interior designated the Alaska Railroad as a bureau of the Department, reporting directly to the Assistant Secretary--Public Land Management instead of through the Office of Territories.

Additional data on the history and organization of the Railroad are included in appendix A to this report.

The chief official of the Railroad is the General Manager. The incumbent, R. H. Anderson, was appointed on August 16, 1958, to succeed John H. Lloyd, who was General Manager from August 24, 1956, to August 15, 1958.

At June 30, 1959, the Railroad had 1,264 employees, compared with 1,214 and 1,428 employees at June 30, 1958 and 1957, respectively, located as follows:

	<u>Number of employees June 30</u>		
	<u>1959</u>	<u>1958</u>	<u>1957</u>
Alaska	1,257	1,207	1,422
Seattle, Washington	5	5	5
Washington, D.C.	<u>2</u>	<u>2</u>	<u>1</u>
Total	<u>1,264</u>	<u>1,214</u>	<u>1,428</u>

Additional comments on the number of employees, personnel policies, and employees' services are contained in appendix B.

Although the average number of employees was reduced by 314 (or about 22 percent) from 1,449 during fiscal year 1957 to 1,135 in fiscal year 1959, the reduction in payroll costs charged to operations between these years was only about 11 percent, primarily because of the increase in employees' salaries approved by the Department of the Interior in November 1957 retroactive to November 1, 1956. The total payroll costs applicable to fiscal years 1959 and 1958 were \$9,336,000 and \$9,731,000, respectively, compared to \$10,495,000 applicable to fiscal year 1957.

We noted no significant weaknesses or deficiencies in those operations of the Alaska Railroad that we reviewed. However, our

review disclosed significant accounting deficiencies. These deficiencies are briefly summarized on pages 4 to 6 and are described more fully on pages 35 to 44 of this report. Because of these deficiencies, we are unable to state that the Railroad's financial statements appearing on pages 52 to 55 present fairly the financial position of the Railroad at June 30, 1959 and 1958, and the results of operations for the fiscal years ended on those dates.

We have given consideration in the report to the comments contained in a letter dated December 28, 1959, from the Administrative Assistant Secretary of the Interior pursuant to the Department's review of the draft report.

## PRINCIPAL FINDINGS AND RECOMMENDATIONS

### MATERIAL OVERSTATEMENT OF NET INCOME

Operating accounts and financial statements have been materially distorted because of improper accounting policies and procedural deficiencies. As a result, the net income reported by the Railroad was overstated by \$1.2 million in fiscal year 1959 and by \$1.1 million in fiscal year 1958.

Results of operations were misstated because certain costs were not charged to operations as follows:

1. In computing the net income for fiscal years 1959 and 1958, the Railroad did not include losses in excess of \$458,400 and \$205,600, respectively, on the disposition of non-depreciable property which was retired during these fiscal years but, instead, charged these losses directly to the retained earnings account.
2. The net income reported for fiscal years 1959 and 1958 was computed without making provision for the estimated amount of additional expense resulting from wage adjustments made in fiscal years 1959 and 1960 retroactive to November 1, 1956. Based on actual payments of retroactive wage adjustments, the additional costs allocable to fiscal years 1959 and 1958 amounted to \$22,500 and \$132,900, respectively.
3. Operating expenses for fiscal years 1959 and 1958 did not include amounts of \$20,700 and \$108,300, respectively, representing employees' annual leave costs not accrued by the Railroad. Net income was therefore overstated by those amounts for the years involved.
4. The income and expense statements of the Railroad include depreciation charges in fiscal years 1959 and 1958 at rates substantially below those in effect in 1957 and prior years and those needed to charge current operations with an appropriate portion of fixed asset costs. The depreciation expense was less than the amounts charged in prior years, when more realistic rates were used, by about \$494,000 in 1959 and about \$463,000 in 1958.
5. The transfer to fixed assets of certain depreciable items acquired or constructed was delayed until long after the assets were in operational use and providing revenue to the Railroad. Had such assets been subjected to depreciation from the date they were substantially physically

complete and were providing beneficial use to the Railroad, charges for depreciation would have reduced operating income by additional amounts of about \$190,000 in fiscal year 1959 and about \$165,000 in fiscal year 1958.

Had the expenses noted above been charged to operations and the losses on the disposition of nondepreciable property been included in the computation of net income for the fiscal years to which they apply, the operations of those years would have resulted in net deficits as follows:

	<u>Fiscal year</u>	
	<u>1959</u>	<u>1958</u>
Loss on retirement of nondepreciable property	\$ 458,400	\$ 205,600
Retroactive wage adjustments	22,500	132,900
Provision for employees' annual leave	20,700	108,300
Adjustment of depreciation to prior years' basis	494,000	463,000
Depreciation on assets in use but not depreciated	<u>190,000</u>	<u>165,000</u>
Total omissions of expense	1,185,600	1,074,800
Net income reported by the Railroad	<u>343,800</u>	<u>109,000</u>
Net deficit from operations, as adjusted	<u>\$ 841,800</u>	<u>\$ 965,800</u>

We are recommending that action be taken to (1) revise the accounting manual of the Railroad to provide that normal retirements of nondepreciable property be considered as a normal current operating expense in determining the net income or loss of rail-line operations and that unusual retirements be recorded in a separate account and identified as unusual charges in the statement of income and expense, (2) charge wage adjustments to operating expenses in the year applicable, using estimates if necessary, and (3) charge operations with depreciation on assets from the time they become available for beneficial use by the Railroad.

A further discussion of these matters and the comments of the Department thereon appear on pages 35 to 42.

INSUFFICIENT ACCUMULATED PROVISION  
FOR DEPRECIATION

A study made by the Railroad in 1959, of depreciation rates and the accumulated provision for depreciation, shows that the accumulated depreciation of fixed assets was grossly understated at June 30, 1959. Based on our review of this study, we agree with the study that the accumulated provision for depreciation at June 30, 1959, should have been about \$20.3 million instead of \$14.2 million. The study attributes the major portion, \$5.2 million, of the understatement to the fact that the accumulated provision for depreciation was charged with the entire cost of certain assets which were retired before the end of their useful life and before the accumulated depreciation charges equaled the recorded cost of these fixed assets. The remainder of the understatement comprises the undercharges in depreciation applicable to fiscal years 1958 and 1959 as shown in the preceding section of this report.

On January 11, 1960, the Administrative Assistant Secretary of the Interior approved the Railroad's proposal to adjust the accumulated provision for depreciation accounts as of July 1, 1959.

We are recommending that the General Manager consider separate accounting for unusual, premature retirements of depreciable properties so that such retirements do not materially deplete the accumulated provision for depreciation. For further comments on overstatement of fixed assets, see pages 42 to 44.

COSTS OF SEWARD DOCK OPERATIONS  
NOT DISCLOSED ADEQUATELY IN BOOKS OF ACCOUNT

The Railroad does not segregate in its financial records the costs of its dock operations at Seward, Alaska, to furnish management with needed information. In our report to the General Manager on review of accounting and financial procedures of the Alaska Railroad for the fiscal years 1956 and 1957, we pointed out the need for full disclosure of all elements of dock-operating costs to assist management in determining areas of excessive costs and whether rates charged to others for use of dock facilities were appropriate. A study of dock operations was started by the Railroad in August 1958 but was discontinued because of departmental disagreement with our recommendation. We believe that, had the study been completed and adequate accounting records established, management would be furnished with useful financial information regarding dock operations. (See pp. 28 to 31.)

Accordingly, we are recommending that the study of dock operations be resumed and that the Secretary of the Interior require the maintenance of appropriate accounts for accumulating separately the costs of maintenance and operation of dock facilities.

DEFICIENCIES IN ADMINISTRATIVE PROCEDURES  
AND PRACTICES

During the audit for fiscal years 1958 and 1959, we noted certain deficiencies and weaknesses in administrative procedures and practices that we reported to the General Manager of the Railroad on October 6, 1959. Our report to the General Manager noted that previously accumulated sick leave was not credited to former Federal employees hired by the Railroad, procedures for processing

changes in pay rates were deficient, and the old Seward dock was not recorded in the property or financial records. The General Manager advised us on October 12, 1959, that action had been or will be taken on these matters.

## FINANCING

After completion of construction of the Alaska Railroad, a revolving fund was established to provide for the accumulation of earnings which are used for operating expenses and maintenance, as well as for improvements and additions. The revenues of the Railroad were not high enough, however, to cover the operation, maintenance, and rehabilitation costs, and it became necessary to request congressional appropriations to supplement the funds realized from operations. During the period from inception to June 30, 1957, the Railroad received appropriations in excess of revenues in the amount of \$169,008,783 as follows:

Original construction	\$ 52,000,000
Equipment, operation, and maintenance, 1923-39	20,069,972
Rehabilitation, 1948-57	95,215,000
Miscellaneous	<u>1,723,811</u>
Total	<u>\$169,008,783</u>

No appropriations were received in fiscal years 1959 and 1958. The capital improvement program and the operation and maintenance of the Railroad in those years were financed from the revolving fund.

### SOURCE AND APPLICATION OF FUNDS AND RESOURCES

During the fiscal years 1959 and 1958, the Railroad obtained and applied funds and resources as follows:

	<u>1959</u>	<u>1958</u>
Funds and resources provided:		
Revenue from operations	\$12,745,818	\$12,578,519
Other income	534,003	464,519
Property transferred from other Government agencies	467,531	460,506
Decrease in working capital	<u>2,622,909</u>	<u>4,618,585</u>
Total funds and resources provided	<u>\$16,370,261</u>	<u>\$18,122,129</u>
Funds and resources applied:		
Operating expense	\$12,569,596	\$12,572,971
Other expense	366,424	361,050
Loss on disposal of property recorded in the current year	458,441	205,624
Operating costs of prior years recorded in the current year	<u>250,825</u>	<u>19,732</u>
Total expense	13,645,286	13,159,377
Less depreciation	<u>1,363,529</u>	<u>1,342,650</u>
Total expense, excluding depreciation	12,281,757	11,816,727
Construction and acquisition of fixed assets (other than major rehabilitation programs)	1,773,499	1,918,520
Construction of fixed assets under the major rehabilitation program	960,468	4,148,417
Extraordinary maintenance recorded in current year	1,287,762	92,513
Net increases in other assets and liabilities	<u>66,775</u>	<u>145,952</u>
Total funds and resources applied	<u>\$16,370,261</u>	<u>\$18,122,129</u>

## OPERATIONS

The Alaska Railroad operates and maintains a single-track main line between Seward and Whittier, the southern terminals, and Fairbanks in the north, a distance of 482.7 miles. In addition, there are 54.7 miles of usable branch lines. The Railroad operates also dock facilities at Seward, and a communications system is operated as a component of the Alaska Communications System. Railroad-owned transportation facilities, consisting of river boats and docks on the Tanana and Yukon Rivers, are leased to a private company for operation.

Operating results reported by the Railroad for fiscal years 1959 and 1958 are summarized as follows:

	<u>Fiscal year</u>	
	<u>1959</u>	<u>1958</u>
Revenues	\$12,745,818	\$12,578,519
Expenses	<u>12,569,596</u>	<u>12,572,971</u>
Operating income	176,222	5,548
Plus other income, less other expenses, including items applicable to prior years (net)	<u>167,579</u>	<u>103,469</u>
Net income for the year	<u>\$ 343,801</u>	<u>\$ 109,017</u>

The net income stated above for fiscal years 1959 and 1958 was determined without considering certain expenses totaling \$1,185,600 for 1959 and \$1,074,800 for 1958 properly chargeable to operations of those years. Inclusion of these expenses results in net operating deficits of \$841,800 and \$965,800 for fiscal years 1959 and 1958, respectively. See summary on page 5 and detailed comments on pages 35 to 42 on factors which constitute the overstatement of net income. Schedules 3 and 4 of the

financial statements show the revenues and expenses as recorded by the Railroad for fiscal years 1959 and 1958.

#### RAIL LINE OPERATIONS

At June 30, 1959, the Railroad operated 12 freight trains a week in through service between the southern terminus at Seward and Anchorage and 6 freight trains a week in through service between Anchorage and the northern terminus at Fairbanks. In addition, 10 freight trains a week were operated to provide local freight service and refrigerator- and heater-car service. The 28 scheduled trains a week is the same service as that provided by the Railroad at June 30, 1957.

Through freight service, effective May 20, 1959, calls for six trains a week in each direction between Seward and Anchorage and three trains a week in each direction between Anchorage and Fairbanks. Freight service is provided from Whittier to Seward-Anchorage trains at Portage by yard transfers as required. Local service, effective May 20, 1959, is provided by one train a week in each direction between Seward and Anchorage, one train a week in each direction from Healy to Anchorage with a principal station stop at Curry, three trains a week in each direction from Fairbanks to Healy, and five trains a week in each direction between Anchorage and Jonesville.

Passenger service, effective May 31, 1959, calls for six trains a week in each direction between Anchorage and Fairbanks and seven trains a week in each direction between Whittier and Anchorage. Passenger service between Anchorage and Seward consists of a single coach car attached to the one local freight train that

is operated once a week in each direction. During the winter months of fiscal years 1958 and 1959, the daytime coach service between Anchorage and Fairbanks was discontinued and a sleeper train was operated three nights a week in each direction. Because of availability of regularly scheduled flights between Anchorage and Fairbanks by local airlines, the Railroad does not plan to reestablish sleeper service in the winter of 1959-60.

In addition to the operation of the rail line, the Railroad operates dock facilities at Seward and a communication system, the latter being under a joint operating agreement with the Alaska Communications System. Operating results of these activities have been included with those of rail-line operations.

Revenues and expenses of rail-line operations for fiscal years 1959 and 1958 are shown on schedules 3 and 4.

Freight revenues and tonnages

Revenue tonnages and amounts earned during the past 3 fiscal years are as follows:

<u>Fiscal year</u>	<u>Revenue tons</u>	<u>Freight revenue</u>
1957	1,443,164	\$11,842,364
1958	1,447,528	10,741,208
1959	1,271,049	10,743,175

About 53 percent of the revenue tons carried in 1959 and 1958 was for the military, compared with 52 percent in 1957 and 1956. Petroleum products continued to be the chief revenue-producing commodities in fiscal years 1959 and 1958. These commodities accounted for \$3,291,738 (29 percent) of total freight revenue in 1959, compared with \$3,526,056 (31 percent) in 1958 and \$4,034,232

(32 percent) in 1957. Revenue from petroleum products decreased 13 percent from 1957 to 1958 and 7 percent from 1958 to 1959.

Revenue freight tonnage increased 4,364 tons in fiscal year 1958 and decreased 176,479 tons in fiscal year 1959. The increase in fiscal year 1958 was largely due to the stockpiling of coal for increased steam-electric generating facilities at military bases at Anchorage and Fairbanks. The increase was largely offset by reductions in shipments of petroleum products. Commercial and military petroleum storage capacities at Anchorage have been increased. These facilities have increased utilization of the port of Anchorage by military and commercial tanker ships with resulting reductions in rail-line shipments of petroleum north from the ports of Whittier and Seward.

The increase in revenues from coal was small in relation to revenue losses from petroleum products and other commodities, resulting in a net decrease in revenue of \$1,101,156 in fiscal year 1958.

The decrease in freight tonnage in fiscal year 1959 is due to completion of stockpiling of coal at military bases and continued reductions in shipments of petroleum products. The decreases in revenues from coal and petroleum were largely offset by general increases in revenues from other commodities, such as machinery, ammunition and explosives, and lumber, resulting in an increase in revenues of \$1,967 in fiscal year 1959.

An analysis of revenue freight on principal commodities for fiscal years 1959 and 1958, showing tons carried and revenue earned, is included as appendix C.

About 90 percent of the movement of freight tonnage is one way (northward). Consequently, the Railroad has low traffic density (ton-miles of freight per mile of road operated). Traffic density in recent years (based on 537 miles of road) has been as follows:

<u>Fiscal year</u>	<u>Traffic density</u>
1952	422,741
1953	508,726
1954	497,677
1955	466,880
1956	440,626
1957	405,778
1958	371,238
1959	330,456

The average for revenue freight density reported for stateside first-class roads in the 1955 Freight Traffic Redbook is 2,762,835 for the calendar year ended December 31, 1952 (the latest available period).

#### Other rail-line revenues

In addition to revenues from freight and dock operations, the Railroad received revenues of about \$1,198,860 in fiscal year 1959, compared with \$1,121,882 in fiscal year 1958, from other rail-line operations, such as transportation of passengers, mail and express, switching, and communications services.

#### Transportation of passengers

In fiscal year 1959 the Railroad carried 79,462 revenue passengers compared with 87,937 passengers in fiscal year 1958 and 96,473 passengers in fiscal year 1957. Measured in revenue passenger miles, traffic decreased 11 percent in fiscal year 1958 and further decreased 13 percent in fiscal year 1959, compared with

fiscal year 1957. The decreases are attributable primarily to reductions in movements of military personnel by rail. Except for minor changes, the present passenger tariff has been in effect since September 1943. The passenger fare between Anchorage and Fairbanks amounts to about 6 cents a mile for a one-way trip and 4 cents a mile for a round trip.

#### Mail revenues

Mail, express, and switching services are the principal sources of miscellaneous transportation revenues. Mail is carried between points on the rail line under a contract between the Railroad and the Post Office Department. On interline mail, the Alaska Steamship Company has the prime contract with the Post Office Department for transportation of mail between Seattle and points in Alaska, and the Railroad has a contract with the Alaska Steamship Company for transporting the mail from the dock at Seward.

A contract with the Alaska Steamship Company effective January 15, 1957, provided for payments to the Railroad of 1.28 cents per pound of mail carried, plus terminal charges of \$5 per weight ton on mail transported in vans (includes unit rail boxes and sealed cribs) and \$7.50 per weight ton on loose mail.

On June 30, 1958, a new contract with Alaska Steamship Company was signed which revised the rates previously paid. The Railroad now receives 1.25 cents per pound for mail destined to or received from rail points south of Cantwell and 2.0 cents per pound for mail from or to rail points north of Cantwell (319 miles north of Seward). A surcharge of 0.25 cents per pound is paid for mail

in vans packed for multiple delivery. The rate for loose mail was increased to \$18 per weight ton and \$7.85 per weight ton for local Seward mail.

A comparison of mail terminal revenues received from the Alaska Steamship Company with stevedoring costs for handling mail indicates that revenues exceed costs.

The Railroad has a contract with the Post Office Department for the carrying of local mail. The present Post Office contract became effective July 1, 1956, and was to extend for a period of 2 years. The contract has been extended beyond its expiration date, while negotiations for a new contract are in progress. The contract provides that the Railroad will transport mail to various points along the main rail line from Seward to Fairbanks, and to points along the branch lines from Matanuska to Jonesville and from Portage to Whittier. Mail to all points is to be carried twice a week in each direction or as often as trains may run. The Railroad is responsible for getting the mail from the railroad stations to the post offices at the specified points. As compensation for this service, the Railroad receives a fixed annual sum of \$25,000, plus 1.28 cents per pound for all mail received via Military Sea Transportation Service or Army transport vessels docking at Whittier or any other port served by the Railroad.

#### Railway express

Express matter is hauled by the Railroad under a contract with the Railway Express Agency. The present contract became effective on March 1, 1955. Under this contract, the amount due the Railroad is determined by Railway Express in accordance with an

involved formula described in the "Standard Express Operations Agreement." The Railroad is classed as a member of the "Mountain-Pacific Group" of carriers, and its percentage of gross revenue is based upon a group pooling of such revenue for all member carriers. The revenues from this source were \$60,625 in fiscal year 1959, compared with \$62,657 in fiscal year 1958.

#### Switching services

Income from switching services has been relatively stable over the past 2 years. The principal source of switching revenue is the switching services performed at Fort Richardson and at Elmendorf Air Force Base under a contract with United States Army, Alaska, effective September 10, 1955. Switching revenues for fiscal years 1959 and 1958 were \$257,107 and \$238,791, respectively, compared with \$247,281 for fiscal year 1957.

#### Telephone and telegraph revenue

One of the principal sources of operating income, other than transportation, is the rental received for the use of the Railroad's telephone and telegraph facilities. A contract between the Railroad and the Alaska Communications System (ACS), dated July 1, 1952, was in effect until November 30, 1958, and provided that the Railroad would make available to the System certain communication facilities along the rail line between Seward and Fairbanks. A supplement to the contract with ACS, effective December 1, 1958, provides for the leasing of additional communications facilities in certain areas. For the total facilities leased to ACS, the Railroad is to receive \$198,283 per annum.

The net cost to the Railroad of operating and maintaining its communication facilities for fiscal years 1959 and 1958 was as follows:

	<u>1959</u>	<u>1958</u>
Maintenance and operating expenses	\$191,084	\$181,712
Depreciation	<u>33,703</u>	<u>34,218</u>
	224,787	215,930
Less telephone and telegraph revenues received	<u>165,274</u>	<u>62,300</u>
Net cost	<u>\$ 59,513</u>	<u>\$153,630</u>

For fiscal year 1957, the net cost to the Railroad of operating and maintaining its communication facilities was \$176,475.

Operating expenses

In fiscal year 1959 expenses of rail-line operations as reported by the Railroad decreased \$3,375 from those in fiscal year 1958. (See schedule 4.)

The net decrease in expenses shown by the Railroad was determined without giving consideration to certain costs, more fully described on pages 35 to 42, in the amounts of \$1,185,600 and \$1,074,800 for the fiscal years 1959 and 1958, respectively. After adjustment of expenses for each fiscal year to include these costs, the operating expenses increased \$107,425 in fiscal year 1959 over fiscal year 1958.

In the Engineering Branch and the Motive Power and Equipment Branch, expenses were decreased because of reduction of maintenance and repair costs in the first half of fiscal year 1959. We have been assured by operating officials of the Railroad that the maintenance of the Railroad is at a high level and that both roadway and track and equipment are fully maintained to meet operating needs.

An increase in expenses of the Operations Branch was due largely to (1) an increase in the cost of operating stations in an effort to improve service to shippers and (2) increased charges for accrued leave resulting from revision of leave rates in fiscal year 1959 to establish an adequate provision for accrued leave based on current rates of pay.

## REHABILITATION PROGRAM

In 1948 a rehabilitation program was initiated which in essence was a rebuilding and reequipping of the Railroad. The program, now substantially completed, consisted of ballasting the roadbed, widening the banks, removing excessive curvatures, replacing ties with creosote-treated ties, laying 115-pound rail, constructing and reconstructing shop facilities, constructing warehouses and dock facilities, acquiring or renovating rolling stock, and converting to diesel operation.

The Railroad's estimate of cost of the rehabilitation program at June 30, 1959, is summarized as follows:

	<u>Amount</u>
Roadway and track	\$ 36,082,000
Bridges, trestles, culverts, and tunnels	5,556,100
Buildings, including power plants, heavy-equipment shops, and terminal yard facilities	18,089,600
Locomotives and other rolling stock	11,523,900
Communications	663,000
Extension of facilities on the Eielson Branch	150,000
Extension of and improvement to Anchorage train yards	1,291,000
Replacement of Anchorage shops destroyed by fire	4,000,000
Emergency repairs on Seward-Portage line	1,500,000
Acquisition and rehabilitation of river-boat facilities	1,500,000
Seward dock	6,442,688
Seward to Portage main-line rehabilitation	7,409,158
Rehabilitation of 112 miles of main-line track re-laid with 115-pound rail only	3,411,672
Transportation costs not prorated to other classifications	<u>7,160,800</u>
Total	<u>\$104,779,918</u>

The estimated cost of the program in 1948, as originally contemplated, was \$33,920,640. Subsequent revisions increased the final estimated cost of the original program to \$73,895,400. Since 1948, however, the program has been expanded to include

other reconstruction and rehabilitation work, resulting in a total estimated cost for the rehabilitation and reconstruction program of \$104,779,918 at June 30, 1959. Of this amount, \$95,215,000 was made available through congressional appropriations and the remainder, \$9,564,918, has been or will be provided from operating revenues out of the Railroad's revolving fund.

At June 30, 1959, only three segments of the rehabilitation program were not completed. These segments were construction of the Seward dock, Seward-Portage main-line rehabilitation, and additional rehabilitation of various sections of the main line north of Portage, totaling 112 miles, which had previously been relaid with 115-pound rail. Most of the major items of work on these uncompleted segments of the program were reported to be 100 percent physically complete.

Since June 30, 1957, the program costs on the uncompleted segments, included in the above tabulation, have been increased by \$3,210,578 as follows:

	<u>1959</u>	<u>1957</u>	<u>Increase or decrease (-)</u>
Seward dock	\$ 6,442,688	\$ 5,650,900	\$ 791,788
Seward-Portage main-line rehabilitation	<u>7,409,158</u>	<u>7,443,100</u>	<u>-33,942</u>
	13,851,846	13,094,000	757,846
Rehabilitation of 112 miles of main-line track relaid with 115-pound rail	<u>3,411,672</u>	<u>958,940</u>	<u>2,452,732</u>
	<u>\$17,263,518</u>	<u>\$14,052,940</u>	<u>\$3,210,578</u>

The net increase was financed from the Railroad's revolving fund.

Expenditures for fiscal years 1959 and 1958 for these projects were as follows:

	<u>1959</u>	<u>1958</u>	<u>Total</u>
Seward dock	\$410,508	\$1,205,038	\$1,615,546
Seward-Portage main line	115,205	1,182,852	1,298,057
Rehabilitation of 112 miles of track	<u>434,755</u>	<u>1,760,527</u>	<u>2,195,282</u>
	<u>\$960,468</u>	<u>\$4,148,417</u>	<u>\$5,108,885</u>

Of the total funds programed or planned at June 30, 1959, for the projects listed above, unexpended balances were as follows:

	<u>Amount</u>
Seward dock	\$187,579
Seward-Portage main line	378,031
Rehabilitation of 112 miles of main-line track relaid with 115-pound rail	<u>45,950</u>
Total	<u>\$611,560</u>

#### Seward-Portage main-line rehabilitation

The original plans for rehabilitation contemplated abandonment of the Seward-Portage segment of the main line and the use of Whittier for the Pacific Ocean port. Because of the international situation, however, the military demands on the port of Whittier have required retention of the port of Seward for commercial traffic. The rehabilitation program was expanded to include the facilities of the port of Seward and the Seward-Portage main line. As of June 30, 1959, the estimated program cost of \$13,851,846 for constructing the Seward dock facilities (\$6,442,688) and rehabilitating the Seward-Portage section of the rail line (\$7,409,158) included costs for improvements to the Seward Terminal Yard and construction or repairs of railroad buildings and communication facilities along the main-line section. The expanded program was approved by the Congress, and as of June 30, 1959, appropriations totaling \$13,094,000 have been made available for this work. The

balance of the funds, \$757,846, was made available from the Railroad's revolving fund.

Expenditures on rehabilitation of the Seward-Portage main line in fiscal years 1959 and 1958 in the total amount of \$1,298,057 included retirement and replacement of the Seward-Portage telephone and telegraph pole line, replacement of a timber trestle by a steel bridge at Milepost 14.5, construction of new terminal facilities at Portage, and completion of construction of a new rail yard at Seward. Total expenditures on rehabilitation of the Seward-Portage main line to June 30, 1959, have amounted to \$7,031,127.

#### Seward dock facilities

In 1953 the Railroad received approval for the construction of new dock facilities at the Port of Seward to replace the old dock facilities which were built in 1916-17. A total of \$4,400,000 was appropriated by the Congress in fiscal years 1954 and 1955 for this construction. In addition, the Railroad transferred from funds appropriated for the rehabilitation of the Seward-Portage section of the main line and provided from revenue funds a total of \$2,042,688, thereby increasing total funds available for construction of Seward dock facilities to \$6,442,688.

Plans for the new dock called for the construction of two wharves, each having parallel berthing space for one vessel, and for the construction of two covered concrete and steel transit sheds. Construction began in July 1955 with the partial razing of the old dock and was planned to provide for completion of one wharf and transit shed before construction on the other started,

so that a minimum of inconvenience would result in the handling of freight. During the construction period, from July 1955 to February 1957, when the first wharf and transit shed were completed and placed in service, the Railroad used a former Army dock at Seward. The Railroad continued to use this dock until December 1958 when the second wharf and transit shed were placed in service. The former Army dock is retained by the Railroad as a stand-by facility. Expenditures to June 30, 1959, for the Seward Dock totaled \$6,255,109, and construction was substantially completed.

#### Rehabilitation of 112 miles of main-line track

The original rehabilitation program contemplated reballasting (replacing crushed rock or gravel under and between ties and rails) of the entire main line but, because of increased costs, this work has been limited to sections of the roadbed. A total of \$3,411,672 was programmed through June 30, 1959, for rehabilitation of the remaining portion of the 112 miles of track relaid with 115-pound rail. Of the total funds programmed for this portion of the rehabilitation program, \$2,452,732 was provided during fiscal years 1959 and 1958 from revenues. Major expenditures during fiscal years 1959 and 1958 were for rehabilitation of track between Mileposts 116.6 and 161.3, and between Mileposts 304.4 and 348.2.

#### OTHER OPERATIONS OF THE RAILROAD

Our comments on certain other facilities and incidental operations of the Railroad follow.

#### Pending sale of Knik Arm Power Plant

At the time of completion of our field audit, the sale of the Railroad's equity in the Knik Arm Power Plant, jointly owned by

the Railroad and the Chugach Electric Association, Inc., to the Association was pending.

On June 25, 1949, the Railroad and the Association entered into an agreement for, among other things, joint participation in the cost of constructing a combination diesel-steam power-generating plant in Anchorage, Alaska. Prior to completion of construction, however, the House Committee on Appropriations, in House Report 1628, Eighty-second Congress, recommended that the Railroad divest itself of its interest in the power facilities. The Railroad's General Manager proposed to the Association, in a letter dated November 12, 1957, that negotiations be commenced for the sale of the Railroad's equity in the plant. In response to that letter the Association, on November 25, 1957, offered to purchase the Railroad's interest in the plant for \$2,383,957 on terms of \$1 million to be paid at time of purchase and the balance to be paid over a 25-year period with interest at 2-1/2 percent on the unpaid portion of the purchase price. The Association also required, as part of the offer to purchase, that a firm agreement be signed by the Railroad for future purchase of steam and electric power at specified rates and for lease of Railroad-owned land on which the plant is located. The proposed purchase and sale agreement has been under review by the Railroad and by the Department of the Interior since November 1957. To determine whether the proposed sale price was reasonable, the Railroad obtained through General Services Administration an independent appraisal of the "fair market value" of the Railroad's interest in the plant. The appraisal firm of Ford, Bacon and Davis, on March 11, 1959, stated

the fair market value to be \$2,485,084, or about \$101,000 more than the price offered by the Association.

The Railroad has complied with its understanding of all legal requirements preliminary to completing the sale but, at the close of our field audit in September 1959, the Department of the Interior had not taken final action on the sale of the Railroad's interest in the Knik Arm Power Plant.

#### River-boat operations

The Railroad has continued to sustain losses on river-boat operations. Although the losses decreased significantly after the river boats and related facilities were leased to a private operator in March 1955, the Railroad's share of the revenue from the lease has not been sufficient to offset its expenses applicable to the operation.

The net loss from operation of the river-boat facilities under the lease amounted to \$17,202 and \$21,239 in calendar years 1958 and 1957, respectively, compared with the loss of \$221,628 in calendar year 1954, the last year of direct operation by the Railroad. Because the river boats operate in the summer months and settlement of the rental is made in November, these operations are reported on a calendar year instead of a fiscal year basis.

The contract with Yutana Barge Lines, Inc., for leasing of the Railroad's river boats and facilities provides that settlement shall be made on November 15 of each year. Revenues and expenses of the lease operations for the 1958 and 1957 summer navigation seasons are summarized as follows:

	<u>1958</u>	<u>1957</u>
Revenue (Railroad's share at 10 percent of gross revenue of lessee)	\$56,751	\$57,773
Less cost of insurance paid by lessee and deducted in accordance with terms of lease	<u>20,000</u>	<u>20,000</u>
Net revenue	36,751	37,773
Depreciation expense	<u>53,953</u>	<u>59,012</u>
Net loss to the Railroad	<u>\$17,202</u>	<u>\$21,239</u>

Real estate owned by Railroad

The Railroad reported a total of 38,763 acres of land held in reserve or under temporary use permits at June 30, 1959. Of this total, 36,959 acres were acquired under public land orders and 1,804 acres were acquired either through purchases, donations, or use permits. This land is used for rail line right-of-way; terminal, shop, and station areas; gravel pits; rock quarries; and for leasing and developing into industrial-commercial areas. The Railroad's records do not readily show the total acres in each of these categories.

The Railroad reported a total of 350 acres under industrial-commercial lease as of June 30, 1959. As of June 30, 1959, there were 222 industrial-commercial leases in effect, of which 139 were at Anchorage, 49 at Fairbanks, 7 at Seward, and 27 at other locations. Rentals billed for the fiscal year 1959 were \$105,976, compared with \$83,361 for fiscal year 1958 and \$100,317 for fiscal year 1957.

Costs of Seward dock operations not disclosed adequately in books of account

A review of the Railroad's financial records shows that costs of its dock operations at Seward, Alaska, are not segregated to

furnish management with needed cost information. In our report to the General Manager on review of accounting and financial procedures of the Alaska Railroad for the fiscal years ended June 30, 1956 and 1957, we pointed out the need for full disclosure of all elements of dock-operating costs to assist management in determining areas of excessive costs, if any, and whether rates charged for services rendered to others for use of dock facilities were appropriate.

In line with our recommendation, a study of the dock operations was started by Railroad officials. This study was discontinued in December 1958 as a result of disagreement by the Office of the Secretary, Department of the Interior, with the General Accounting Office recommendation. Our review of this incomplete study and discussions with Railroad officials disclosed no exceptionally difficult problem areas nor any need for maintaining costly detailed records to furnish management with necessary financial data.

A comparison of the recorded revenues, costs, and operating losses for the last 3 fiscal years follows:

<u>Fiscal year</u>	<u>Revenues</u>	<u>Costs</u>	<u>Loss</u>
1959	\$803,783	\$ 929,976	\$126,193
1958	715,430	970,129	254,699
1957	909,846	1,285,409	375,563

Costs such as salaries of employees stationed in the freight house who perform services relating to both rail-line and dock operations, depreciation of the dock facilities, and maintenance are not included as costs and expenses of operating the dock. Inclusion of such costs would further increase the losses from dock operations for the 3 fiscal years shown above.

Revenues from dock facilities at the port of Seward are derived from charges for wharfage, hauling, loading and unloading, berthage, and crane service and from other terminal charges. The revenues of \$803,783 for fiscal year 1959 represented an increase of 12.3 percent from the 1958 revenues of \$715,430, compared with a decrease of revenues of 21.4 percent from 1957 to 1958.

The charges for services rendered at the Seward dock are provided for in a local tariff for terminal facilities effective since June 17, 1958, and in the interline freight tariffs which prescribe through rates covering ocean transportation, dock charges, and rail transportation. The through rates are divided between the Railroad and the other carriers involved according to agreements entered into by the parties to the tariffs. The Railroad allocated 20 percent of its portion of through-freight revenue as revenue applicable to the Seward dock operation. Any increase in this percentage allocation would decrease the portion of through-freight revenue allocated to rail-line operations but would not affect the over-all revenues of the Railroad. Longshore services are performed under a contract entered into in 1958 between the Railroad and Northern Stevedoring and Handling Corporation. The contract remained in effect through fiscal year 1959 and was amended several times to provide increased rates based upon increased wages and benefits paid to longshoremen by the contractor under union agreements.

We believe that the study previously started by Railroad officials should be completed and accounting records properly established so that management can be furnished with useful information needed in the operation of the dock facility.

## Recommendation to the Secretary of the Interior

To provide useful financial data on which management decisions may be made, we recommend that the study of dock operations--recommended by us in a previous report to the General Manager--be completed and that appropriate accounts be maintained for accumulating separately the costs of maintenance and operation of dock facilities.

The Department advised us on December 28, 1959, as follows:

"The Seward Dock operations are a very necessary and pertinent part of the entire rail line operation and to segregate a small segment thereof does not seem entirely practical. The study of Seward Dock operations will be resumed and if the results of the study indicate that the data will be of use to management, appropriate accounting records of its operations will be maintained."

## FUTURE PROSPECTS FOR PASSENGER AND FREIGHT TRAFFIC

Regular passenger steamship service to Alaska was discontinued in 1954. Discontinuance of this service has had an adverse effect on passenger transportation revenues of the Railroad because of the decrease in the number of boat passengers transported to cities on the rail line. In an effort to recover some of this revenue loss, the Railroad inaugurated its first sleeper service between Anchorage and Fairbanks on October 16, 1955.

Revenues from the sleeper service declined from \$26,600 in fiscal year 1958 to only \$13,600 in fiscal year 1959. Railroad officials advised us that the loss in sleeper car revenues, as well as a portion of the decline in passenger revenues, is attributed to the inauguration of regularly scheduled flights between Anchorage and Fairbanks by local airlines. Because the flight time between these points is less than 2 hours, there is little inducement

for businessmen to use rail facilities for the trip. The Railroad discontinued its sleeper service in the spring of 1959, and present plans do not call for reestablishment of the service.

The Railroad has entered into agreements with two of its principal motor carrier competitors under which loaded and sealed freight vans of these carriers are received by the Railroad from ships' tackles at the port of Seward and are transported on flatcars to Anchorage and Fairbanks. One of the carriers avails itself of this service on a year-around basis, while the other uses it primarily in the winter months. Revenues obtained from transporting vans of private motor carriers have increased from about \$593,000 in fiscal year 1957 to about \$714,000 in fiscal year 1959. Railroad officials state that the "piggy back" van service is developing into a major freight-revenue-producing operation.

During fiscal years 1958 and 1959, the Railroad continued expansion of its own unit rail box service. Unit rail boxes are vans without wheels about half the size of a box car which can be loaded onto flat-bed trailers for highway movement or onto flatcars for rail movement. The expansion has resulted in increased benefits through lower handling costs, traffic increases because of the faster service, and rentals from ocean carriers for the use of the boxes. The Railroad's ability to further expand its unit rail box service is limited, however, by the amount of available deck space on ocean carriers' vessels. Railroad officials advised us that at June 30, 1959, about 65 percent of planned facilities for unit rail boxes had been purchased and were in use.

The recommendation of the House Appropriations Committee<sup>1</sup> that the Army dock facilities at the port of Whittier be opened to commercial traffic by January 1, 1956, did not materialize. If the facilities had been opened to commercial traffic, it would have benefited the Railroad because the port of Whittier is not accessible to private motor carriers, and, therefore, all freight northward would have to be transported by rail.

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<sup>1</sup>H. Rept. 680, 83d Cong., page 23.

## FINANCIAL ADMINISTRATION

### ACCOUNTING SYSTEM

Effective December 1, 1954, the Railroad placed into effect the new accounting system devised jointly by the Railroad, the Office of the Administrative Assistant Secretary of the Department of the Interior, and the General Accounting Office. In a letter dated November 29, 1954, the Comptroller General tentatively approved adoption of the new system and stated that formal approval would be given at such time as the system was determined to be fully installed and operating effectively. The new system is designed to show costs of the principal activities on an organizational basis and is materially simpler than the former system, which was patterned after the Interstate Commerce Commission chart of accounts for Class I Railroads. Effective July 1, 1956, the Railroad issued and placed into effect an accounting manual based upon the new system. This manual contains a complete chart of accounts designed to show revenues and costs by activity and managerial responsibility which serves the dual purpose of accounting for operations and budgeting.

In a letter dated September 25, 1957, the Comptroller General approved the accounting system and the prescribed accounting classifications as provided in the manual, subject to further discussion of possible changes in the handling of the investment and other accounts and the use of depreciation instead of betterment and retirement accounting for roadbed and track.

Our audit of the financial transactions and review of accounting procedures for fiscal years 1959 and 1958 showed that the

system is functioning in a generally satisfactory manner. We noted, however, certain improper accounting policies and procedural deficiencies which are discussed in detail on pages 35 to 44. In addition, other matters of lesser importance were reported to the General Manager by letter dated October 6, 1959.

#### MATERIAL OVERSTATEMENT OF NET INCOME

Operating accounts and financial statements have been materially distorted because of improper accounting policies and procedural deficiencies. As a result, operating expenses were understated and the net income reported by the Railroad was overstated by \$1.2 million in fiscal year 1959 and by \$1.1 million in fiscal year 1958.

#### Losses on retirement of nondepreciable property

The Railroad recorded losses on retirement of nondepreciable property in the amount of \$458,442 in fiscal year 1959 and \$205,624 in fiscal year 1958 as charges to a surplus account showing retained earnings from July 1, 1954, rather than recognizing such losses in determining the net income or loss for each year.

Under the Railroad's accounting system, the roadbed and track are considered to be nondepreciable property and no provision is made to charge operations with an appropriate portion of the cost of these assets. The Railroad charges normal and unusual retirements of nondepreciable property to the surplus account for retained earnings of prior years. As a result, the accounting records and operating statements do not disclose fully the effect of all transactions relating to fixed assets during each year. The amounts of net income reported by the Railroad for fiscal years

1959 and 1958 would have been reduced by \$458,442 and \$205,624, respectively, if the retirements of nondepreciable property in those years had been appropriately recorded.

In its letter dated December 28, 1959, commenting on our draft report, the Department advises that it will give careful consideration to this matter "with the objective of determining whether or not some guidelines can be developed where losses of an unusual nature are handled as at present and with other less significant losses being charged to current operations."

The retirement of some items of nondepreciable property is a usual and recurring incident of the Railroad's operations. In other cases, however, significant amounts of nondepreciable property are retired under circumstances which do not affect current operations. We believe that the normal, recurring retirements of nondepreciable property are normal operating expenses and should be included in the operating statement in determining the net income or loss of rail-line operations of the year in which the property is retired. Significant, unusual, or nonrecurring retirements should be separately identified and reported as unusual charges in the statement of income and expense for the year in which the property is retired.

As a result of our current audit, we believe that a revision of the accounting manual to change the procedure for recording these transactions should be made as recommended below to disclose fully the results of operations to top management and the Congress. We recognize that the Railroad's accounting manual--which has been approved by the Comptroller General as to principles, standards,

and related requirements incorporated therein--provides for the current method of recording costs of retirements of nondepreciable property as charges against retained earnings. The letter approving the accounting system (B-115346, dated September 25, 1957) stated, however, that some changes and modifications in handling the investment account and certain other accounts and related procedures should be made and that these changes and modifications would necessitate revisions of the manual. The change in procedure which we are recommending below is in line with modifications needed in the Railroad's accounting system referred to in the Comptroller General's letter.

#### Recommendation to the Secretary of the Interior

To provide for full disclosure of all transactions affecting nondepreciable property, the accounting manual of the Railroad should be revised to provide that:

1. Normal, recurring retirements of nondepreciable property be considered as normal, current operating expenses in determining the net income or loss on rail-line operations.

2. Unusual, nonrecurring retirements of nondepreciable property be recorded in a separate account and separately identified as unusual charges on the statement of income and expense for the year in which the property is retired.

#### Retroactive wage adjustments

Wage adjustments retroactive to November 1, 1956, were paid to employees of the several classifications in fiscal years 1959 and 1958. The final such retroactive wage adjustment under the union agreements currently in effect was paid in August 1959 and covered the pay differential for one class of employees from

November 1, 1956, to May 31, 1959. At the time approval was granted in November 1957 by the Department of the Interior for the application of wage rates now in effect and for retroactive pay to the effective date of the various hourly rates, the Railroad did not estimate or accrue the cost of the retroactive portion of such pay. When retroactive payments were actually made, the portion applicable to the year of payment was charged to operating expense and the remainder was charged to a surplus account showing retained earnings from July 1, 1954. Because the costs of the retroactive pay to employees for the fiscal year to which applicable were not estimated and accrued, the Railroad overstated its income by about \$22,500 in fiscal year 1959 and about \$132,900 in fiscal year 1958. Further, the liability for accrued payroll payable on the Statement of Assets and Liabilities published by the Railroad was understated at June 30, 1959, by \$65,179 and at June 30, 1958, by about \$229,000.

The Department advised us in its letter dated December 28, 1959:

"The amounts stated are correct; however, the wage dispute which resulted in the retroactive adjustments respecting the operating employees (train and engine service employees) took over three years to settle. On March 19, 1959, the Administrative Assistant Secretary approved the basis for determining the wage rates for the group of employees. The employees' union appealed this decision and on May 20, 1959, the Railroad was instructed to postpone putting the rates into effect. A final decision was not reached until July 7, 1959, which restated the Department's decision of March 19, 1959.

"Final retroactive payment was made on August 19, 1959, after the books for 1958 and 1959 were closed and financial statements issued. \*\*\*."

### Recommendation to the General Manager

To properly state net income for the year in operating statements and to reasonably state the liability for accrued payrolls payable on the Statement of Assets and Liabilities at the fiscal year end, we recommend that hereafter payroll costs be charged to operating expenses and the related payroll liability be recorded in the year applicable using reasonably based estimates where actual amounts are not known.

With respect to this recommendation, the Department stated in its letter dated December 28, 1959:

"While we agree that in situations of this kind appropriate liabilities should be recorded, we are advised by the Railroad that because of many complex factors involved it was not possible to determine a reasonably accurate estimate of costs."

We recognize the difficulties that were presented in the extended negotiations here involved. We believe, however, that the contingent liability could and should have been disclosed by means of an estimate or by a footnote explaining the probable effect of the wage negotiations on the financial condition of the Railroad.

### Provision for employees' annual leave

The Railroad charges operations with a provision for employees' annual leave at a rate intended to maintain in the liability account, Provision For Employees' Annual Leave, a balance which reasonably approximates the true liability at any given time. A comparison of the recorded liability to an "inventory" of actual leave entitlement for all employees of the Railroad is made semi-annually at which time rates are adjusted if necessary. Although a test made in May 1958 of the liability account showed that at

least \$108,300 additional provision would be needed at June 30, 1958, the Railroad made no appropriate adjustment. Consequently, the net income for fiscal year 1958 was overstated by the same amount. At June 30, 1959, the liability was understated by \$129,000 and net income for fiscal year 1959 was overstated by \$20,700.

In its letter dated December 28, 1959, the Department stated:

"The amounts stated are correct; however, prior to the General Accounting Office audit, the annual leave accrual rates were adjusted. It is believed that the new rates will produce an accrual equal to the obligations, within a reasonable time."

Although action was taken during the period of our field work to increase the rates of accrual of leave, we believe that in the future the recorded liability should be compared with the actual leave entitlement of the employees at reasonable intervals; the leave accrual rates and, if necessary, the recorded liability should be adjusted when significant differences have occurred.

#### Inadequate and inconsistent depreciation charges

Effective July 1, 1957, the Railroad charged to operations depreciation on the cost of depreciable assets (less estimated salvage value) at a flat rate of 2-1/2 percent a year without consideration of the net book value or remaining useful life of the classes of assets involved. A 1959 study by the Railroad, which took into consideration estimates of the remaining useful life for each class of depreciable property, the recorded net book value, and the salvage value, indicates that the 2-1/2-percent rate was grossly inadequate to charge to current operations an appropriate portion of the cost of the assets in use. Proposed revised rates

submitted to the Department of the Interior for approval on August 10, 1959, more nearly approximate the rates in effect prior to July 1, 1957. Had the rates used prior to July 1, 1957, been continued through fiscal years 1958 and 1959, depreciation expense would have been about \$494,000 greater in 1959 and \$463,000 greater in 1958 than was recorded by the Railroad, resulting in reduction of net income in those amounts for the respective years.

Adoption of the rates proposed as a result of the 1959 study by the Railroad was approved on January 11, 1960, by the Administrative Assistant Secretary of the Interior, to be effective as of July 1, 1959.

Depreciation not charged on assets in use

Certain assets used in Railroad operations during fiscal years 1958 and 1959 were not depreciated.

Among the depreciable assets providing beneficial use to the Railroad, but on which no depreciation had been charged at June 30, 1959, were the following assets:

<u>Description</u>	Months in service in fiscal years 1958 and 1959	Accumulated cost at <u>June 30, 1959</u>
Seward dock	24	\$5,682,000
Transit shed at Seward dock	6	570,300
Microwave system, Anchorage to Portage	14	354,400
Steel bridge at Milepost 14.5	22	665,800
Terminal facilities at Portage	14	275,100
Other	24	<u>310,400</u>
		<u>\$7,858,000</u>

Had the Railroad charged depreciation on these assets from the time they started providing beneficial use, operating expenses

would have increased and net income from operations would have decreased by about \$190,000 in fiscal year 1959 and about \$165,000 in fiscal year 1958. The transfer of costs of these assets from the account Additions and Betterments in Progress to the account Fixed Assets has been delayed pending completion of all authorized work and accounting for all costs.

#### Recommendation to the General Manager

To give proper recognition in current operations to the depreciation of assets in use, we recommend that depreciation be computed on assets from the time they start to provide beneficial use to the Railroad.

In its letter dated December 28, 1959, the Department stated:

"Steps are being taken to correct this situation so that property is properly recorded and depreciated. With respect to Seward Dock, there is a question on what portion of this substantial investment is depreciable and what portion is non-depreciable. The Railroad is studying this problem and Departmental staff will keep in touch to see that appropriate action is taken."

#### Insufficient accumulated provision for depreciation

In its 1959 study of depreciation rates, the Railroad determined that the recorded accumulated provision for depreciation at June 30, 1959, was understated by about \$6,109,000 primarily because the provision had been charged with the entire cost of certain assets which had been retired long before the end of their useful life and before the accumulated depreciation charges equaled the cost of the fixed assets.

Based on our review of the study, we agree that the accumulated provision for depreciation at June 30, 1959, should have been about \$20.3 million instead of \$14.2 million. On January 11,

1960, the Administrative Assistant Secretary of the Interior approved the adjustment of the accumulated provision for depreciation accounts as of July 1, 1959.

The study indicates that about \$5,152,000 of the understatement is attributable to charging to the accumulated provision for depreciation the costs of fixed assets which were retired long before the expiration of their service lives and before adequate provision for their depreciation had been made.

The policy of charging the costs of fixed assets being retired to the accumulated provision for depreciation is consistent with the composite or group method of computing depreciation. The composite rates, however, should be established to make adequate provision for depreciation of assets as a composite or group and the depreciation rates should be adjusted if experience proves them to be inappropriate. Moreover, any substantial impairment of the accumulated provision for depreciation, such as would occur from large unanticipated retirements, should be corrected by adjustment of the accounts.

#### Recommendation to the Secretary of the Interior

In order that unusual, premature retirements of depreciable properties that are significant in amount do not materially deplete the accumulated provision for depreciation, we recommend that separate accounting for such retirements be provided. Such retirements should be separately identified and reported as unusual charges in the statement of income and expense for the year in which the property is retired.

The Department informed us in its letter dated December 28, 1959, that it agreed with this recommendation and that the matter will be further explored with the Railroad and the General Accounting Office.

## BUDGETING

Commencing with fiscal year 1954, the Railroad has presented business-type budget statements to the Congress for approval. The classification of expenditures in the budget is consistent with the account classifications under the new accounting system.

Effective December 31, 1956, the Railroad placed into operation budgetary control procedures for capital improvement programs. These procedures provide for the preparation of an annual summary control schedule containing the various capital improvement programs with estimated costs as approved by the General Manager. The programmed expenditures are classified in accordance with the new account system as it relates to fixed assets. The Budget Officer maintains a control record of the budgeted and approved programs which shows for each individual program the total amount authorized, the limitation on specific projects or features of the program, the amount allotted for the specific projects or features, the actual expenditures by specific projects or features by months and cumulatively, and the unexpended balance of the allotment. Monthly reports are prepared by the Budget Officer from this control record for the information and guidance of management and officials responsible for the various programs.

Budgetary control procedures are also in effect for the Railroad's operation and maintenance activities. Forecasts of revenues are made monthly based upon prior month's receipts and known or anticipated changes. The portion of estimated receipts to be utilized for operation and maintenance expenses is allotted to the various offices and departments. Department heads have the

responsibility for determining that expenditures are restricted to allotments. Comparative monthly reports of actual expenditures and receipts are made available to the General Manager.

#### INTERNAL AUDIT

The internal audit staff is under the immediate direction and technical control of a supervisory auditor, who is responsible directly to the Comptroller for general administration of the internal audit program. At the conclusion of our audit for fiscal year 1957, the Railroad's internal audit group consisted of a supervisory auditor and three staff auditors. The group has been decreased by the retirement of one staff auditor in fiscal year 1958 and another in fiscal year 1959. Although the scope of the internal audit program has been expanded, staffing limitations have reduced the effectiveness of the program.

## SCOPE OF AUDIT

Our audit of the Alaska Railroad for fiscal years 1958 and 1959 included a review of certain operating activities and a selective examination of the financial statements as follows:

1. We reviewed the basic laws authorizing the activities and the pertinent legislative history to ascertain the purposes of the activities and their intended scope.

2. We ascertained the policies adopted by the Railroad and reviewed these policies for conformance with the basic legislation.

3. We reviewed the procedures followed by the employees of the Railroad to determine the effectiveness of the procedures.

4. We did not make a detailed audit, but we examined selected transactions to the extent we deemed appropriate under the existing circumstances in order to render an opinion on the financial statements of the Railroad. Our examination was made with due regard for the nature and volume of transactions and the effectiveness of internal control. The audit was conducted at Anchorage, Alaska.

## OPINION OF FINANCIAL STATEMENTS

The accompanying statement of assets and liabilities (schedule 1), statement of retained earnings from July 1, 1954 (schedule 2), and the statements of net income and expense (schedules 3 and 4) for the Railroad have been prepared from statements published by the Railroad. Beginning in September 1958, the Railroad revised its financial statements to essentially conform to those shown in our report to the Congress for fiscal years 1956 and 1957 and, accordingly, the accompanying financial statements as they pertain to the financial position of the Railroad at June 30, 1958, and the results of operations for the fiscal year then ended have been reclassified to present both fiscal years 1958 and 1959 on a consistent basis.

In our opinion, the accompanying financial statements do not present fairly the financial position of the Alaska Railroad at June 30, 1959 and 1958, and the financial results of operations for fiscal years ended on those dates, mainly for the reasons set forth below:

1. In computing the net income for fiscal years 1959 and 1958, the Railroad did not include losses in excess of \$458,400 and \$205,600, respectively, on the disposition of nondepreciable property which was retired during the fiscal years but, instead, charged these losses directly to the retained earnings account. (See pp. 35 to 37.)

2. The net income reported for fiscal years 1959 and 1958 was computed without making provision for the estimated amount of additional expense resulting from wage adjustments retroactive to

November 1, 1956. Based on actual payments of retroactive wage adjustments, the additional costs allocable to fiscal years 1959 and 1958 amounted to \$22,500 and \$132,900, respectively. (See pp. 37 to 39.)

3. Operating expenses for fiscal years 1959 and 1958 did not include amounts of \$20,700 and \$108,300, respectively, representing employees' annual leave costs not accrued by the Railroad. Income was therefore overstated by those amounts for the years involved. (See pp. 39 and 40.)

4. The income and expense statements of the Railroad include depreciation at rates substantially below those in effect in 1957 and prior years and those needed to charge current operations with an appropriate portion of fixed-asset costs. The result has been to charge operations with less depreciation expense than was charged in prior years by about \$494,000 in 1959 and about \$463,000 in 1958. (See pp. 40 and 41.)

5. The transfer to fixed assets of certain depreciable items acquired or constructed and the application of depreciation thereon were delayed until long after the assets were in operational use and providing revenue to the Railroad. Had such assets been subjected to depreciation from the date they were substantially physically complete and were providing beneficial use to the Railroad, charges for depreciation would have reduced operating income by about \$190,000 in fiscal year 1959 and about \$165,000 in fiscal year 1958. (See pp. 41 and 42.)

6. The accumulated depreciation of fixed assets at June 30, 1959, should have been about \$20.3 million instead of \$14.2 million as recorded by the Railroad in the account for accumulated provision for depreciation. (See pp. 42 to 44.)

7. Because the Railroad did not estimate and accrue pay adjustments due to operating personnel at June 30, 1959, the liability for accrued payrolls payable was understated at that date by \$65,179. For the same reason, the liability account was understated at June 30, 1958, by about \$229,000. (See further comments on pp. 37 to 39.)

**FINANCIAL STATEMENTS**

DEPARTMENT OF THE INTERIOR  
ALASKA RAILROAD

STATEMENT OF ASSETS AND LIABILITIES--JUNE 30, 1959 AND 1958

	1959	1958		1959	1958
<b>A S S E T S</b>					
<b>CURRENT ASSETS:</b>			<b>CURRENT LIABILITIES:</b>		
Cash:			Accounts payable	\$ 576,620	\$ 1,242,066
In U.S. Treasury	6,895,985	\$ 10,025,397	Accrued payrolls payable	493,906	415,950
On hand	<u>5,275</u>	<u>5,975</u>	Alaska Railroad Medical Association	12,043	56,021
	6,901,260	10,031,372	Other current liabilities	<u>457,499</u>	<u>640,374</u>
Accounts receivable:			Total current liabilities	<u>1,540,068</u>	<u>2,354,411</u>
Traffic:					
Commercial	731,630	435,134			
Government agencies	808,667	890,443	<b>OTHER LIABILITIES AND DEFERRED REVENUE</b>	<u>88,021</u>	<u>72,602</u>
Other accounts receivable	<u>549,173</u>	<u>579,869</u>			
Total accounts receivable	2,089,470	1,905,446	<b>PROVISION FOR EMPLOYEES' ANNUAL LEAVE</b>	<u>588,824</u>	<u>624,457</u>
Less provision for bad debts	<u>13,410</u>	<u>9,785</u>	Total liabilities	<u>2,216,913</u>	<u>3,051,470</u>
Accounts receivable, net	2,076,060	1,895,661			
Inventories of materials and supplies, at average or estimated cost	<u>3,848,531</u>	<u>4,313,044</u>	<b>PROPRIETARY INTEREST OF THE U.S. GOVERNMENT:</b>		
Advances to General Services Administration	254,302	277,328	Invested and donated capital:	167,284,972	167,284,972
Total current assets	<u>13,080,153</u>	<u>16,517,405</u>	Appropriations by the Congress	1,723,811	1,723,811
			Allotments from appropriations to other agencies, proceeds from sale of town lots, and other items, net	<u>16,485,150</u>	<u>16,017,619</u>
<b>FIXED ASSETS (at cost or appraised value):</b>			Property transferred or donated by other agencies or by individuals, net	<u>185,493,933</u>	<u>185,026,402</u>
Land	101,171	89,544	Total investment	<u>57,288,951</u>	<u>56,001,189</u>
Buildings	10,864,308	10,869,525	Deficits from operations and capital losses to June 30, 1954 (note 3)	128,204,982	129,025,213
Other structures and facilities	80,802,420	76,411,224	Net investment	<u>2,741,361</u>	<u>3,056,305</u>
Equipment	24,572,579	22,917,776	Retained earnings from July 1, 1954 (schedule 2)	130,946,343	132,091,518
Nonoperating property	<u>6,159,318</u>	<u>6,134,014</u>	Total proprietary interest of the U.S. Government	<u>\$133,163,256</u>	<u>\$135,142,988</u>
Less accumulated provisions for depreciation, net of retirements (note 1)	122,499,796	116,422,153			
Additions and betterments in progress, net (note 2)	<u>14,184,021</u>	<u>13,630,926</u>			
Fixed assets, net of accumulated depreciation	<u>108,315,775</u>	<u>102,791,227</u>			
<b>DEFERRED CHARGES AND OTHER DEBITS</b>					
Total assets	<u>\$133,163,256</u>	<u>\$135,142,988</u>			

The notes on pages 56 to 59 are an integral part of this statement.

The opinion of the General Accounting Office on this financial statement appears on pages 48 to 50.

D E P A R T M E N T   O F   T H E   I N T E R I O R  
ALASKA RAILROAD

STATEMENT OF RETAINED EARNINGS FROM JULY 1, 1954  
TO JUNE 30, 1959 AND 1958

	<u>June 30, 1959</u>	<u>June 30, 1958</u>
Balance at beginning of the year	\$3,066,305	\$4,642,770
Reclassification of amounts previously charged to invested and donated capital	<u>          -</u>	<u>1,610,480</u>
Adjusted balance at beginning of the year	<u>3,066,305</u>	<u>3,032,290</u>
<b>Deduct:</b>		
Adjustments applicable to prior year's expenses and revenues:		
Retractive pay increases	\$180,834	\$257,018
Net increase or decrease (-) in other expenses	<u>24,871</u>	<u>-95,779</u>
Net decrease in prior year's revenues	<u>45,119</u>	<u>10,688</u>
Retirements of nondepreciable property	250,824	171,927
	<u>458,442</u>	<u>205,624</u>
	2,357,039	377,551
<b>Add:</b>		
Inventory adjustments	40,521	176,271
Adjustment of sick leave accrual	<u>          -</u>	<u>126,278</u>
Balance after adjustments applicable to prior years	<u>40,521</u>	<u>302,549</u>
Add net income for the year (schedule 3)	2,397,560	2,957,288
Balance at June 30 (to schedule 1)	<u>343,801</u>	<u>109,017</u>
	<u>\$2,741,361</u>	<u>\$3,066,305</u>

The notes on pages 56 to 59 are an integral part of this statement.

The opinion of the General Accounting Office on this financial statement appears on pages 48 to 50.

DEPARTMENT OF THE INTERIOR  
ALASKA RAILROAD

STATEMENT OF INCOME AND EXPENSE

FOR THE FISCAL YEARS ENDED JUNE 30, 1959 AND 1958

	<u>1959</u>	<u>1958</u>
<b>RAIL LINE OPERATIONS:</b>		
Operating revenues:		
Freight	\$10,743,175	\$10,741,208
Passenger	395,249	460,343
Mail	171,402	125,029
Express	60,625	62,657
Wharfage and handling	757,674	696,100
Docking privileges	46,109	19,330
Switching	257,107	238,791
Telephone and telegraph	165,274	62,300
All other	<u>149,203</u>	<u>172,761</u>
Total operating revenues	12,745,818	12,578,519
Operating expenses (schedule 4)	<u>12,569,596</u>	<u>12,572,971</u>
<b>NET INCOME ON RAIL LINE OPERATIONS</b>	<u>176,222</u>	<u>5,548</u>
Add other income:		
Sale of power and steam	149,236	139,250
Rental of river boats and related facilities	56,751	57,773
Rent of buildings and other property	271,895	201,839
Proceeds from sales of surplus and excess property less costs of disposal	45,668	65,556
Miscellaneous	<u>10,453</u>	<u>101</u>
Total other income	<u>534,003</u>	<u>464,519</u>
Deduct other expenses:		
Cost of power and steam sold	107,008	101,271
Depreciation on river boats and related facilities leased to others	53,902	53,931
Expenses of buildings and other property leased to others	82,161	88,337
Depreciation on Knik Arm Power Plant and miscellaneous facilities (excluding river boats) leased to others	90,425	88,363
Miscellaneous	<u>32,928</u>	<u>29,148</u>
Total other expenses	<u>366,424</u>	<u>361,050</u>
<b>NET INCOME FOR THE YEAR</b>	<u>\$ 343,801</u>	<u>\$ 109,017</u>

The notes on pages 56 to 59 are an integral part of this statement.

The opinion of the General Accounting Office on this financial statement appears on pages 48 to 50.

DEPARTMENT OF THE INTERIOR  
ALASKA RAILROAD

SCHEDULE 4

STATEMENT OF OPERATING EXPENSES  
FOR THE FISCAL YEARS ENDED JUNE 30, 1959 AND 1958

	<u>1959</u>	<u>1958</u>
<b>ENGINEERING BRANCH:</b>		
Superintendence	\$ 181,012	\$ 203,485
Maintenance of roadway and track	1,242,421	1,412,740
Maintaining track structures	86,838	70,272
" auxiliary structures	241,175	301,355
Dismantling retired property	20,628	20,161
Other road and structure expense	11,520	9,629
Removing snow, ice, and sand and car cleaning	268,704	178,827
Section mess operation	20,891	27,261
<b>Total Engineering Branch</b>	<u>2,073,189</u>	<u>2,223,730</u>
<b>MOTIVE POWER AND EQUIPMENT BRANCH:</b>		
Superintendence	134,492	147,493
Repairs to shop and power plant machinery	26,393	25,805
" " locomotives	410,322	414,937
" " freight train cars	317,402	392,051
" " passenger train cars	118,069	135,272
" " work equipment	78,329	126,804
" " roadway machines	203,690	155,099
" and operation of automotive equipment	140,267	113,483
" to unit rail boxes	591	-
" " " box appurtenances	626	-
Shop expenses	499,495	566,783
Locomotive expenses	516,100	535,840
Train expenses	267,858	267,214
<b>Total Motive Power and Equipment Branch</b>	<u>2,713,634</u>	<u>2,880,781</u>
<b>TRAFFIC DIVISION:</b>		
Traffic expenses	127,578	139,307
Advertising and publicity expense	18,751	-
<b>Total Traffic Division</b>	<u>146,329</u>	<u>139,307</u>
<b>OPERATIONS BRANCH:</b>		
Superintendence	169,153	180,366
Station operations	2,520,957	2,334,676
Yard expenses	145,701	171,801
Casualty damages and expenses	22,054	12,840
Snow removal service	30,198	28,961
Loss and damage claims	89,911	69,717
Locomotive expenses	837,225	797,991
Train expenses	1,125,165	1,072,068
Special agents	82,410	101,108
Safety engineer	23,442	22,443
Hire of freight cars	87,940	90,489
<b>Total Operations Branch</b>	<u>5,134,156</u>	<u>4,882,460</u>
<b>COMMUNICATIONS BRANCH:</b>		
Operations communication system	186,701	177,792
Signals, interlockers, and crossing protection	4,383	3,920
<b>Total Communications Branch</b>	<u>191,084</u>	<u>181,712</u>
<b>ADMINISTRATIVE EXPENSES:</b>		
General Manager and staff	116,043	115,012
Division of Administration	676,066	680,133
Personnel Division	69,321	69,129
Real Estate and Contract Agent	52,420	50,415
Seattle and Washington, D.C., offices	50,838	43,743
<b>Total administrative expenses</b>	<u>964,688</u>	<u>958,432</u>
<b>DEPRECIATION</b>	<u>1,219,202</u>	<u>1,200,356</u>
<b>COST OF EMPLOYEES' MESSES AND HOUSING, NET</b>	<u>127,314</u>	<u>106,193</u>
<b>Total operating expense (to schedule 3)</b>	<u>\$12,569,596</u>	<u>\$12,572,971</u>

The notes on pages 56 to 59 are an integral part of this statement.

The opinion of the General Accounting Office on this financial statement appears on pages 48 to 50.

NOTES TO FINANCIAL STATEMENTS

1. Accumulated provisions for depreciation,  
net of retirements

The provisions for depreciation are accumulated in separate accounts for the various classes of fixed assets. These accounts are reduced by the retirement at gross book value, less scrap or salvage value, of assets in the respective classes on which depreciation has been provided. The accumulated provisions for depreciation at June 30, 1959 and 1958, were as follows:

	<u>June 30</u>	
	<u>1959</u>	<u>1958</u>
Buildings	\$ 2,518,191	\$ 2,426,101
Other structures and facilities	6,355,354	6,010,558
Equipment	<u>4,655,484</u>	<u>4,679,812</u>
Total operating equipment	13,529,029	13,116,471
Nonoperating property	<u>654,992</u>	<u>514,455</u>
Balance at June 30	<u>\$14,184,021</u>	<u>\$13,630,926</u>

2. Additions and betterments

Accounts are maintained to record the cost of the various classes of property owned and in use by the Railroad. Accounts are maintained also to accumulate the costs of additions and betterments in progress under authorities for expenditures (AFE's). At the completion of work, costs accumulated on AFE's are transferred to the appropriate class of property or to expense accounts where indicated. To the extent that additions and betterments contain costs expended under the rehabilitation program, a portion of which will ultimately be charged to deficits from operations and capital losses to June 30, 1954, the fixed assets net of accumulated depreciation as recorded by the Railroad are overstated.

The amount of such overstatement is not readily determinable since determination of the noncapital portion of expenditures on AFE's is not made until completion of the AFE's.

Allowances for depreciation are recorded in accumulated provisions for depreciation maintained for each class of property subject to depreciation. However, depreciation is not charged for assets carried in the additions and betterments account even though the new assets are used in Railroad operations. Transfers to the appropriate fixed asset accounts are frequently deferred pending minor physical completion or accounting analysis.

3. Deficits from operations and capital losses to June 30, 1954

In September 1958, the Railroad established accounts for the purpose of segregating as of July 1, 1957, noncapital rehabilitation costs from other deficits from operations and capital losses to June 30, 1954. In the establishment of segregated balances certain items previously charged to the investment account were reclassified as charges to Retained Earnings from July 1, 1954, in the net amount of \$1,610,480 (see schedule 2, Statement of Retained Earnings). After this reclassification, the balances representing noncapital rehabilitation costs and deficits from operations to June 30, 1954, were established in the amounts of \$30,823,850 and \$26,207,544, respectively. These balances and transactions affecting them in fiscal years 1959 and 1958 follow:

	<u>Noncapital rehabilita- tion costs</u>	<u>Deficits from operations and capital losses to June 30, 1954</u>	<u>Total</u>
Balance established by the Railroad as of July 1, 1957	\$30,823,850	\$26,207,544	\$57,031,394
Fiscal year 1958 increase or decrease (-)	<u>92,513</u>	<u>-1,122,718</u>	<u>-1,030,205</u>
Balance as of June 30, 1958	30,916,363	25,084,826	56,001,189
Fiscal year 1959 increase	<u>1,287,762</u>	<u>-</u>	<u>1,287,762</u>
	<u>\$32,204,125</u>	<u>\$25,084,826</u>	<u>\$57,288,951</u>

The noncapital rehabilitation costs represent the portion of replacements and renewals under the rehabilitation program and are considered by the Railroad to represent deferred maintenance costs not of a capital nature. The major cost in fiscal year 1959 for deferred maintenance was the completion of rehabilitation work on various segments of the main line north of Portage, at a cost allocated to deferred maintenance of \$1,283,878. Other deferred maintenance projects completed during fiscal year 1959 amounted to \$3,884, and those for fiscal year 1958 totaled \$92,513.

The account, Deficits From Operations and Capital Losses to June 30, 1954, was adjusted in fiscal year 1958 by the amount of \$1,105,393 through elimination of erroneous accruals in prior years of sick leave and leave other than annual, as noted in our audit report for fiscal years 1956 and 1957. Other credits to the account in the amount of \$17,324 further reduced the recorded deficit to June 30, 1954, to \$25,084,826.

The Railroad classifies the balance remaining in this category at June 30, 1959, as follows:

General expenditures, original road	\$ 2,304,564
Deficits from operations, original construction	6,925,216
Deficit from end of construction to June 30, 1954	3,309,630
Depreciation prior to July 1, 1954	11,970,625
Leave reserve as adjusted	<u>574,791</u>
 Total deficits from operations to June 30, 1954	 25,084,826
 Noncapital rehabilitation costs	 <u>32,204,125</u>
 Total deficits from operations and capital losses to June 30, 1954	 <u>\$57,288,951</u>

**APPENDIXES**

HISTORY AND ORGANIZATIONORIGIN AND PURPOSE

The act of August 24, 1912 (37 Stat. 517), created an Alaska Railroad Commission of four members, having designated qualifications, to be appointed by the President to:

"\*\*\* conduct an examination into the transportation question in the Territory of Alaska; to examine railroad routes from the seaboard to the coal fields and to the interior and navigable waterways; to secure surveys and other information with respect to railroads including cost of construction and operation; to obtain information in respect to the coal fields and their proximity to railroad routes; and to make report of the facts to Congress."

The Commission made the study of existing and other possible railroad routes and submitted its report<sup>1</sup> together with conclusions and recommendations. After extensive hearings, the Congress passed the act of March 12, 1914 (38 Stat. 305; 48 U.S.C. 301-308), authorizing the President to locate, construct, and operate railroads in the Territory of Alaska and authorizing an appropriation of \$35,000,000 for the construction. The act provided that the route or routes were:

"\*\*\* not to exceed in the aggregate one thousand miles to be so located as to connect one or more of the open Pacific Ocean harbors on the southern coast of Alaska with the navigable waters in the interior of Alaska and with a coal field or fields so as best to aid in the development of the agricultural and mineral or other resources of Alaska, and the settlement of public lands therein, and so as to provide transportation of coal for the Army and Navy, transportation of troops, arms, munitions of war, the mails, and for other governmental and public uses, and for the transportation of passengers and property."

In addition, the act authorized telegraph and telephone lines necessary or convenient in the construction and operation of the Railroad to serve generally all the usual purposes of telegraph and telephone lines for hire.

On May 2, 1914, the President appointed the Alaska Engineering Commission and directed the Secretary of the Interior to

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<sup>1</sup>Railroad Routes in Alaska--H. Doc. 1346, 62d Cong.

proceed with the survey of routes for a railroad. In its report the Commission discussed several possible routes but without recommendation, and on April 10, 1915, the President authorized the construction of a railroad from Seward to Fairbanks with a branch to the Matanuska coal fields. By this same order, supervision of the construction by the Commission was delegated to the Secretary of the Interior.

In making the selection of the route from Seward to Fairbanks, the President also authorized the purchase of the Alaska Northern Railroad, a line out of Seward on which construction had been suspended, and the narrow-gauge line from Fairbanks to Chatanika. The right-of-way of the latter line was used in part as the road-bed of the Alaska Railroad. Generally following this route, there was constructed or acquired a main line of 470.3 miles and a branch line into the coal fields at Matanuska of 18.9 miles. In 1922 the Alaska Engineering Commission contracted with the Healy River Coal Company to build a spur from Healy to Suntrana for \$10,000 and 6,667 tons of coal to be delivered in the first 6 months of 1923. At completion this spur became the property of the Alaska Railroad and was referred to as the Suntrana branch. During World War II, the military establishment constructed a new rail line from a seaboard terminus at the head of Passage Canal to Portage on the main line of the Alaska Railroad and constructed a branch line from Fairbanks to Eielson. Under subsequent legislation, the operation and maintenance of these facilities were transferred to the Alaska Railroad. The former branch line of 3.8 miles from Moose Creek to Premier, which had not been in operation during the past 14 years, has been substantially abandoned. At June 30, 1959, the Alaska Railroad operated and maintained main and branch lines as follows:

	<u>Miles</u>	
Main lines:		
Seward to Fairbanks	470.3	
Whittier to Portage	<u>12.4</u>	482.7
Branch lines:		
Matanuska to Sutton	18.9	
Sutton to Jonesville	2.9	
Eska Junction to Eska	0.5	
Healy to Suntrana	4.4	
Fairbanks to Eielson	<u>28.0</u>	<u>54.7</u>
Total main lines and branches		<u>537.4</u>

In 1919 the \$35,000,000 originally authorized for the construction of the Railroad was exhausted, and by the act of October 18, 1919 (41 Stat. 293), the authorization was increased to \$52,000,000. A further increase to \$56,000,000 was provided by the act of November 18, 1921 (42 Stat. 221).

From time to time, further amounts were provided in the annual appropriation acts for capital expenditures; in the fiscal years 1947 through 1959, an aggregate of \$95,214,951 was appropriated for an extensive rehabilitation program. Appropriations to finance operating deficits had also been made since 1923. At June 30, 1959, the appropriations by the Federal Government aggregated \$167,284,972.

Under the basic legislation, the Alaska Railroad has been authorized to purchase or construct river steamers and barges for operation on the Yukon River and its tributaries, to provide facilities for the public at Mount McKinley National Park, and to purchase stores for resale. The McKinley Park Hotel was transferred to the National Park Service on November 7, 1953, and the Railroad ceased its operation of commissary facilities on June 1, 1954. The Railroad operated the river boats during calendar year 1954, but, beginning with the 1955 season, the operation was leased to a private operator for 20 years.

#### ORGANIZATION AND MANAGEMENT

The act of March 12, 1914, vested in the President authority for the location, construction, and operation of the Railroad in the Territory of Alaska. In authorizing the route for the construction of the Railroad in the Executive Order of April 10, 1915, the President delegated the supervision of the construction by the Alaska Engineering Commission to the Secretary of the Interior. At the completion of the original construction, the President, by Executive Order 3861 of June 8, 1923, authorized and directed the Secretary of the Interior to operate the Railroad and other facilities in the same manner as if the operation had been placed by law under the jurisdiction of the Secretary. Under this order the Alaska Railroad was established as an agency in the Department of the Interior. In Departmental Order 1040 of February 13, 1946, the Secretary of the Interior delegated the general supervision over the activities of the Alaska Railroad to the Division of Territories and Island Possessions (now Office of Territories). The General Manager of the Alaska Railroad was authorized in Order 2516 of April 14, 1949, to act for the Secretary of the Interior on any matter having to do with the operation of the Railroad and its related activities (with certain reservations dealing with important changes in policy or extensions of service).

On December 16, 1959, the Secretary of the Interior designated the Alaska Railroad as a bureau of the Department reporting to the Assistant Secretary, Public Land Management.

From the completion of the original construction of the Railroad to the present, there have been eight General Managers. The General Managers and their tenures of office are:

Lee H. Landis	October 1, 1923, to November 10, 1924
Noel W. Smith	December 19, 1924, to July 31, 1928 (Also served as Special Assistant to the Secretary of the Interior in charge of the Alaska Railroad from July 7, 1924, to appointment)
Col. Otto F. Ohlson	August 1, 1928, to July 26, 1943
Reappointed	August 12, 1943, to December 31, 1945
Col. John P. Johnson	January 1, 1946, to October 21, 1953
Frank E. Kalbaugh	September 1, 1953, to April 2, 1955
Reginald N. Whitman	April 19, 1955, to August 14, 1956
John H. Lloyd, Jr.	August 24, 1956, to August 15, 1958
R. H. Anderson	August 16, 1958, to present

Under the delegation in Order 2516, the General Manager has reasonably broad authority and responsibility for the operation of the Railroad and related activities.

PERSONNEL POLICIES AND EMPLOYEES' SERVICES

The Railroad's enabling act (48 U.S.C. 301) authorized the President of the United States, or whomsoever he delegates, to fix the compensation of all officers, agents, or employees necessary to carry out the purposes of the act. The Classification Act of 1949, as amended (5 U.S.C. 1082), specifically exempts the officers and employees of the Railroad from its coverage.

Under authority of Executive Order 3861 dated June 8, 1923 (5 U.S.C. 485), the Secretary of the Interior is charged with supervision of the public business of the Railroad. Accordingly, all proposed action on the establishment and revision of broad policies, including the determination of compensation, rates of pay, and hours of work, requires the approval of the Secretary. By departmental order the General Manager of the Railroad is authorized to take final action on appointments and status changes of Railroad personnel, with the exception of key positions which the Secretary has determined to be of a policy-making or major supervisory nature.

COMPENSATION

The present wage structure, hours of work, and basic working conditions are based upon negotiated agreements between representatives of employees' associations and officials of the Railroad. These agreements cover all employees except certain top supervisory personnel. At the close of fiscal year 1959, there were eight agreements in effect which had been negotiated with six employee associations dealing with the Railroad.

The wage structure of the Railroad is based upon the wage scale for railroads in the Pacific Northwest, increased by a differential to compensate for the higher cost of living in Alaska. Agreements now in effect generally provide for annual increases in hourly wage rates November 1 of each year. In addition, the wage structure is subject to adjustment every 6 months based on changes in the Consumers' Price Index of the Bureau of Labor Statistics, except that no decrease adjustment shall be made below the established basic wage scale. The over-all effect of wage increases granted to all employees of the Railroad subject to wage agreements since November 1, 1956, has been an increase of about 51 cents per hour which includes cost of living increases indicated by the Consumer's Price Index. These hourly rate increases applied to the average number of personnel employed by the Railroad during the fiscal years under review have had the effect of increasing costs in excess of \$1,000,000 in fiscal year 1959 and in excess of \$750,000 in fiscal year 1958.

Wage scales in effect on June 30, 1959, were subject to change on November 1, 1959. Negotiations of new wage agreements with some employees' associations were in progress as of February 1960. New rates agreed upon by negotiation will become effective on the date that the new agreements are signed.

EMPLOYMENT

Employment statistics of the Railroad for the fiscal years 1959, 1958, and 1957 are as follows:

<u>Fiscal year</u>	<u>Number of employees at June 30</u>	<u>Average number of employees</u>	<u>Annual payroll cost</u>
1959	1,264	1,135	\$ 9,336,000
1958	1,214	1,269	9,731,000
1957	1,428	1,449	10,495,000

Except for specific positions designated in the union agreements and those of a supervisory nature, all new positions or vacancies are bulletined by the Railroad. Under the several union agreements, the senior qualified employee bidding for the position must be awarded the open position. This policy aids in promotion within the Railroad. When no qualified employee makes application for an open position, it is filled by recruitment outside the Railroad.

Certain top-level supervisory positions exempted from the position bid requirements and bulletined positions for which qualified applicants cannot be obtained locally are filled by contract with applicants in the continental United States. The contracts provide for payments to those employees of transportation costs to Alaska and return to the United States after satisfactory completion of 1 year of service. A total of 146 such contracts were in force at the close of fiscal year 1959.

LEAVE AND RETIREMENT

Employees of the Railroad receive the same sick and annual leave benefits as Federal classified employees. Retirement benefits are also the same, except that the Railroad employees are subject to mandatory separation upon attaining the age of 62 years, with 15 years of service in Alaska. Moreover, retirement annuities are increased by an amount equal to \$36 multiplied by the number of years of service in the Territory of Alaska between March 12, 1914, and July 1, 1923.

Employees of the Railroad contribute to the civil service retirement fund under the provisions of the Civil Service Retirement Act, as amended by the act of July 21, 1949 (63 Stat. 475), and the act of July 31, 1956 (70 Stat. 743), in the same manner and to the same extent as Federal classified employees subject to the same act.

MEDICAL SERVICES

On January 1, 1954, the Railroad and representatives of eight labor unions promulgated jointly a new medical plan to replace the

full medical service to employees provided under conditions stated in Executive Order 2414 of June 30, 1916. The new plan provided for an assessment of a membership fee from Railroad employees to be paid to "The Alaska Railroad Medical Association" through a payroll deduction authorization. This fee was established at \$1.75 per biweekly pay period. Under Article XI of the constitution and bylaws of the Association, the Railroad made contributions to the fund in amounts equal to the total employee deductions during the month.

The Association's Board of Trustees increased the employees' assessments as of May 31, 1955, and effective with the first pay period in June 1955, the employees' payroll deductions for assessments were increased from \$1.75 to \$2 a pay period.

Effective May 1, 1956, the Association's constitution and bylaws were revised to provide for discontinuance of assessments and payroll deductions against nonoperating employees (excluding trainmen and engine firemen) with the Railroad absorbing the full cost of contributions to the fund, or a maximum of \$4 per employee per pay period. Assessments against operating personnel were set at \$2 per employee per pay period with matching contributions by the Railroad.

Effective February 9, 1958, the Association, by action of its Board of Trustees, increased the assessments against operating personnel from \$2 to \$2.50 a pay period and imposed a 50 cent assessment against nonoperating personnel each pay period to provide adequate funds for the successful operation of the Association. Contributions by the Railroad remained at \$2 for operating personnel and \$4 for nonoperating personnel per pay period.

The Medical Association has agreed to furnish, under certain prescribed regulations and conditions, medical and surgical treatment, medicines and surgical dressings, and hospitalization to Railroad employees for off-the-job injuries and illnesses.

Article XI(3) of the Association's constitution and bylaws provides that, for each 6 months' period of operations, a review will be made by the Board of Trustees to determine if any adjustments are required to meet anticipated operational expenses.

On January 1, 1959, the funds of the Association were segregated from those of the Railroad and provision was made for periodic audit of the Association's accounts and records by the Internal Audit staff of the Railroad. All funds received by the Association are deposited in a working fund from which the excess over current operating needs is transferred to savings accounts or used for the purchase of Government bonds. Article XII provides that the Railroad will absorb the expenses of preemployment and periodic medical examinations required by the Railroad of its personnel, as well as the administrative expense of accomplishing payroll deductions and accounting therefor.

The General Accounting Office has considered the execution of the contract to be within the authority granted in section 1 of the act of March 12, 1914 (38 Stat. 305), to the President and delegated to the Secretary of the Interior. The Secretary of the Interior has approved the contract.

## DEPARTMENT OF THE INTERIOR

## ALASKA RAILROAD

## ANALYSIS OF REVENUE FREIGHT

FOR THE FISCAL YEARS ENDED JUNE 30, 1959 AND 1958

	1959		1958	
	Tons	Revenue	Tons	Revenue
<b>CARLOAD:</b>				
Petroleum products	324,102	\$ 3,291,738	357,097	\$ 3,526,056
Bituminous coal	676,972	2,127,794	847,393	2,769,827
Vans	42,371	713,987	31,068	521,526
Class "A" Army freight	7,799	233,572	9,312	290,947
Cement--natural and Portland	13,983	199,581	17,813	242,047
Food products	23,360	361,744	16,813	278,841
Machinery and machines	11,959	271,396	6,858	152,409
Alcoholic beverages	8,267	152,439	9,964	171,002
Lumber, shingles, and lath	16,951	217,108	12,181	144,370
Manufactured iron and steel	8,715	165,313	5,287	96,795
Army tender	7,605	130,745	9,529	129,869
Auto trucks	2,484	81,199	2,037	75,937
Furniture	2,077	92,222	1,391	77,514
Ammunition and explosives	6,522	265,148	2,958	111,784
<b>Total</b>	<b>1,153,167</b>	<b>8,303,986</b>	<b>1,329,701</b>	<b>8,588,924</b>
<b>OTHER CARLOAD</b>	<b>80,579</b>	<b>1,592,498</b>	<b>83,344</b>	<b>1,449,660</b>
<b>Total carload</b>	<b>1,233,746</b>	<b>9,896,484</b>	<b>1,413,045</b>	<b>10,038,584</b>
<b>LESS THAN CARLOAD</b>	<b>37,303</b>	<b>1,322,588</b>	<b>34,483</b>	<b>1,229,670</b>
<b>Total</b>	<b>1,271,049</b>	<b>11,219,072</b>	<b>1,447,528</b>	<b>11,268,254</b>
<b>Deduct:</b>				
20 percent of interline freight revenue allocated to wharfage and handling		492,521		438,739
Net miscellaneous corrections to freight bills		-16,624		88,307
		475,897		527,046
<b>Total freight revenue per books</b>		<b>\$10,743,175</b>		<b>\$10,741,208</b>